

October 6th, 2008

Mr. David Mitchell
Alberta Utilities Commission
10055-106th Street, 10th Floor
Edmonton, Alberta T5J 2Y2

Dear Mr. Mitchell:

In reply to your letter of September 25th 2008, we have identified specific priority areas where the current methodology followed for rate setting purposes by FortisAlberta Inc. is not consistent with IFRS.

The issues that we feel are of priority to be addressed are:

1. Property, Plant and Equipment IAS 16

- Capitalization of costs in certain instances may be different under IFRS than currently used for setting rates. Some examples are certain overhead costs and depreciation of equipment utilized in construction of other capital assets. An example of this would be the use of a vehicle in the construction of a distribution line.
- Use of fair values in establishing asset costs is allowable under IFRS and is not utilized for the establishment of rates.
- Insurance proceeds received from property plant and equipment which is damaged are included in income when receivable under IFRS but are included as salvage proceeds, which ultimately are recorded as part of accumulated depreciation, for rate setting purposes.
- Gains or losses realized upon retirement of assets are included in the current period income under IFRS but for rate setting are essentially deferred by their inclusion in accumulated depreciation.

2. Intangible Assets IAS 38

- Regulatory assets may not be recognizable under IFRS, yet for rate setting these assets are recognized (these would mainly constitute deferral accounts). If it is determined that these deferred amounts are not recognized under IFRS as regulatory assets then these amounts would be expensed as incurred. For rate setting purposes these are deferred and collected at a later date.

- Capitalization of costs in certain instances may be different under IFRS than currently used for setting rates. See comments above under Property, Plant and Equipment.
3. Impairments, Provisions, Contingent Assets and Liabilities IAS 36 & 37
- The manner in which costs of removal (negative salvage) are recognized under IFRS differs from the methodology utilized in establishing rates.
 - IFRS may require that an impairment charge or write up be taken to income, while it is currently not expensed or included in income for rate setting.
 - Regulatory liabilities may not be recognizable under IFRS, yet for rate setting these liabilities are recognized (these would include deferral accounts). If it is determined that these deferred amounts are not recognized under IFRS as regulatory liabilities then these amounts would be taken to income as collected. For rate setting purposes these are currently deferred and recognized at a later date.
4. Borrowing Costs IAS 23
- The calculation of the amount of carrying costs to capitalize under IFRS differs from the AFUDC methodology utilized for rate setting purposes.
5. Income Taxes IAS 12
- IFRS requires the use of the method often referred to as the liability method, while for rate setting purposes the taxes payable methodology is currently utilized.
6. Employee Benefits IAS 19
- IFRS provides options for recognizing pension and other post employment benefit expenses, none of which are the cash payable method currently utilized for a rate setting purposes.
7. First time Adoption IFRS 1
- IFRS may require certain adjustments to existing balances upon adoption. The rate setting methodology would not recognize these adjustments in current period rates.
8. Other
- IFRS requires customer contributions to be recorded as a liability and not as a reduction of Property, Plant and Equipment as is currently done for rate setting purposes. This is primarily a presentation issue and the different methodology is not expected to have an impact on rates.

FortisAlberta is planning to file for 2010 and 2011 rates in 2009. As such, it is important that prior to the preparation of that filing these issues be addressed or they will need to be separately determined in our rate case. In addition the Company will need to undertake any necessary systems and process modifications to adopt IFRS during 2009 and resolution of these issues will provide clarity to allow these changes to be made. As such, guidance on items that will both affect the systems development and the rate filing is required on a priority basis. Within that overarching context, the order of priority that we would suggest the Alberta Utilities Commission (“AUC”) address the issues would be as presented above.

It is our view that a collaborative process, much like that utilized for the Uniform System of Accounts (“USA”) would be the most efficient manner to deal with these issues. However unlike the USA process wherein, after the system of accounts was developed, a hearing was held to determine if the USA should be implemented, it is our view that such a hearing would not be required in this case as the determination to adopt IFRS for financial reporting has already been made by other bodies that govern such matters.

The readily apparent options open to the AUC to address these issues are to either adopt IFRS for rate setting purposes or keep utilizing the current method for each of the items noted. For some differences such as recognition of regulatory assets (deferrals) it may be possible for the AUC to aid in the recognition of these under IFRS by utilizing clarifying language in decisions or in other documents or by altering the timing of collection.

We acknowledge that it is not likely that IFRS will be fully adopted for rate setting purposes, nor do we feel it appropriate to do so. As such, differences between IFRS reporting and regulatory reporting will exist. However eliminating differences where appropriate will reduce the effort required to keep two sets of records.

It is important to note that several IFRS standards are being modified and we also anticipate new ones will be issued. As this occurs new issues may arise. In addition as work continues on the IFRS implementation and different interpretations of the standards are encountered, additional issues may arise.

Sincerely,



Michael Olson
Controller and Treasurer
FortisAlberta Inc.